

Southern Cross Medical Care Society 51st Annual General Meeting 6 December 2012

This document contains the addresses delivered at the AGM by Chairman Graeme Hawkins, Southern Cross Healthcare Group Chief Executive Officer Ian McPherson and Southern Cross Health Society Chief Executive Peter Tynan.

Chairman Graeme Hawkins:

As detailed in the Annual Report, your Society is in a strong and stable financial position, while continuing to deliver very good value for its 820,000 members.

In 2012, for every dollar received in premium, 85.7 cents was returned to members in claims for healthcare services.

The financial year was characterised by volatility in claims costs. For the first half of the year claims costs tracked below forecasts - a key contributor being lower than expected claims from the Canterbury region following the February 2011 earthquake. However, claims costs surged in the final quarter, hitting a record high in the month of May 2012. The lower claims costs in the first half of the financial year contributed to a year-end surplus of \$39m.

As a not-for-profit Friendly Society, all surpluses generated by the Society are retained for the benefit of members. Surpluses are used to mitigate premium increases; to increase the value of benefits available in Southern Cross policies; and to maintain reserves at appropriate levels.

At year end, the Society's reserves sat at \$373.3m, just above the midpoint of our target solvency range. This represents the equivalent of around seven months of claims.

I would like to remind this meeting that holding strong financial reserves is not only responsible governance - it is now a legal requirement under the Insurance (Prudential Supervision) Act.

Our strong solvency position has helped the Society maintain its A+ financial strength rating from Standard and Poor's for the tenth consecutive year. Reserves are also invested to provide income for the Society and its membership. In 2012, the Society's investment portfolio generated \$21.9m in income.

I would now like to discuss the findings of the Member Tenure Project. This was undertaken following two member-initiated resolutions at the Society's 2011 AGM. The project was carried out to look at the possibility of some form of recognition for long-term members.

This resolution stemmed from concern over the high cost of premiums for older members. Premiums for older members are higher because, as a group, these members claim more. Members aged 65 and over make up 12% of the Society's membership yet account for 32% of all claims paid.

Member tenure is a topic with no easy answers. As a not for profit Friendly Society, any discount for long term members would need to be funded by raising premiums for the rest of the membership.

We consulted widely on the subject, and all members had the opportunity to make a submission to a Discussion Document, released in early April. Our research found that, after weighing up the implications,

members signalled they would be unwilling to pay more in premiums to fund a discount purely for longer duration members.

It is also worth noting that not all long-term members are in the older age bracket. If the qualifying threshold for being a “long-term member” was set at 30 years, more than half of our members aged 65 and over would not qualify.

However, an idea that emerged from the Member Tenure project was to look at extending the current Low Claims Reward to include a tenure element. This idea is currently being explored and if possible, we hope to have some details in the coming months. Thank you for your interest in and loyalty to the Society.

Group Chief Executive Officer Ian McPherson:

Good evening ladies and gentlemen. Your membership with Southern Cross plays a hugely important role in New Zealand’s health system. Privately-funded elective surgery currently accounts for over half of all electives performed in New Zealand. This provides significant relief to the public sector.

Elective healthcare is non-urgent healthcare you can reasonably be expected to wait for. But non-urgent doesn’t mean it’s not needed. ‘Elective’ healthcare includes procedures such as hip replacements, cardiac surgeries and cataract removals. Going without treatment can have a huge impact on our quality of life.

In the 2012 financial year, Southern Cross funded 171,000 elective surgeries for its members. This included over 16,000 colonoscopies, 6000 cataract surgeries and around 1600 hip replacements. Your premiums also funded over 50,000 ultrasound scans and 12,000 MRIs.

These might sound like “Trivial Pursuit” answers – but they are in no way trivial. The Society and its members make a huge contribution to New Zealand’s health system. In the future, your contribution to healthcare costs will become even more important.

Demand on public funds is coming from several fronts. The population is ageing, chronic conditions are rising rapidly, and so is the scope of new treatments and technology. To maintain the same high-quality public emergency and acute services we enjoy today, more personal responsibility for elective healthcare will be necessary.

Politicians are somewhat reluctant to acknowledge this reality. We’ve heard a great deal in the media about “record” levels of elective surgery being provided by DHBs. Well, the truth is that demand is at record levels – in both public and private.

To give just one example, based on the same number of members, the number of orthopaedic procedures funded by Southern Cross has increased by 24% since 2007.

The crunch is that the nation’s ability to fund the growing demand for healthcare is not growing at the same rate.

It’s vital we do all we can to ensure our members are getting the best possible value for money from their health dollars, and that we support those New Zealanders who choose to make their own provision for healthcare.

We must take an active interest in costs. The Society’s Affiliated Provider programme is working closely with healthcare providers to understand their practice and pricing, and ultimately to manage or moderate premiums for our members long term.

When looking at ways to achieve better value we also recognise that not all surgery needs the resources of a full hospital operating theatre. In the last year, the Society has amended its policy benefits to allow for more procedures, such as skin lesion removal, to be dealt with in lower-cost but high quality environments such as GPs consulting rooms.

On a wider scale, we are talking with Government about ways to assist New Zealanders to be able to afford and access elective healthcare in their future years.

Earlier this year there was a renewed call from within the health insurance industry to provide tax rebates on premiums for older New Zealanders. However, the Health Minister has said there is simply no spare capacity to fund a rebate at this time. It's with reluctance that we accept the Government's position.

We now need to explore other solutions – whether they are through insurance, health-specific savings or other mechanisms. Taking greater personal responsibility for our healthcare needs will challenge long-held expectations. We can take heart from the fact we've already been down this road with retirement savings.

Once, we thought the state would provide. Today, the working population has KiwiSaver and the understanding they will be providing for the majority of their own retirement costs. The same needs to be done for elective healthcare, and Southern Cross Healthcare Group plans to lead discussions and initiatives in this area.

Health Society Chief Executive Peter Tynan:

Our members continue to place high importance on two things - access to health services, and the certainty that comes with financial peace of mind. Demand for health insurance remains strong across the country.

However, we are not immune to the financial pressures facing many households and businesses. The result has been a modest decline in membership. Southern Cross continues to provide the best value in the New Zealand health insurance market.

Over the last five years, the Society paid 90 cents in claims for every dollar received in premium. Analysis of financial statements of our largest competitor, a for profit entity, showed a return of just 67 cents for every dollar received in premium.

One way we can support our members is by keeping premiums and any increases as reasonable as possible. To do this, we must address the root cause - rising claims costs.

In the last five years, claims costs per member have grown by 34%. This increase reflects both the rising demand for healthcare services from our members, and the rapidly rising cost of those services.

The Society's Affiliated Provider programme is central to our efforts in delivering better value to member's long term. Affiliated Providers are specialists, surgeons and facilities that carry out certain medical procedures and healthcare services for Southern Cross members at agreed prices.

Aside from cost certainty, members benefit from a simple prior approval and claims process, with the provider managing this on their behalf. We now have over 300 Affiliated Provider agreements in place covering 20 different specialties. Claims for services from Affiliated Providers now account for 25% of the Society's total claims costs.

These agreements have helped us to secure some significant savings for our members in the initial negotiations, and to keep inflation low in subsequent contract renewals. An example of recent negotiations with a group of providers saw the Society reduce overall prices by more than 38% from what was previously charged on a fee-for-service basis.

To drive expansion of the programme we will continue to specify certain procedures as "Affiliated Provider-only" within our policies.

This means members on most plans are reimbursed for these procedures only if they are carried out by an Affiliated Provider. A few examples include colonoscopy, cataract surgery, angioplasty, radiotherapy and certain prostate surgeries.

The next area of focus for the programme will be orthopaedics and a number of general surgical procedures.

Orthopaedics account for over a fifth of the Society's total claims costs, so it's crucial that we achieve the best possible value in this area.

Other ways we seek to manage costs are by closely monitoring the value of new medical technology or techniques. There are some new technologies that appear to add significant cost to treatment, without a corresponding benefit for the patient. We carefully assess these, and in general, only provide cover where there is a demonstrable clinical benefit to our members at an acceptable cost.

Although we regularly review benefits, we are mindful of the cost of any additions to policies. We are careful to balance our members' desire for more treatment options and higher limits with the potential impact on premiums. In addition, the Society has several customer service initiatives underway which aim to deliver members greater value, more convenience and long-term operational savings.

In particular we have focused resources on two electronic initiatives that offer members a better experience when they do need to use their Health Insurance.

One of these is Easy-claim, an electronic claiming service exclusively for Southern Cross members. By presenting your Member Card at participating healthcare providers, you can now lodge a claim and have it paid directly to the provider.

This service, a first for New Zealand insurers, is currently available at around 300 pharmacies for qualifying prescription claims. It is also being piloted by Southern Cross Primary Care's partner practices for GP consultations and minor surgery.

We are in the process of expanding this service to selected physiotherapists, dentists, opticians and audiologists. Automating claims through Easy-claim adds extra efficiency to the Society's business operations, which ultimately benefits our members.

Another electronic initiative under expansion is 'My Southern Cross'. This is a secure member-only area on the Southern Cross website that policyholders can use to manage their policy details, find out information about their current or past claims, and receive certain communications electronically. Over 20,000 Southern Cross members have registered to date. If you have not already registered we recommend this service to you.

In addition to providing a convenient service, our aim is for My Southern Cross to assist in reducing printing and postage costs – a suggestion we have had from members at previous AGMs.

For the same reason - reducing costs, we decided earlier in the year to discontinue the Alive magazine. Although we received good feedback from members regarding the publication much of the content can be delivered online for a much lower investment.

To close I would like to thank the members for your continued support of the Society.

I would also like to thank all our employees. We are as a team making every effort to ensure you continue to receive the best possible service and value from us.